

The Latest in Corporation Location Strategy

Missouri Governor's Economic Development Conference



Presented by:

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CORPORATE LOCATION TRENDS

- 1. Recent activity level**
 - In 2003, 60% drop from 2000
 - Economy
 - 9/11
 - Iraq War
 - In early 2004, rebound in corporate location activity began
 - Consumer goods mfg.
 - Distribution
 - Services
 - Capital goods/in late 04
 - Technology in early 06
 - This year plan for a 10%-15% gain in new corporate location announcements and at least 10% in 2007
- 2. Among the industries that are most locationally active**
 - Biotech
 - Pharmaceuticals
 - Health/beauty products
 - Medical equipment
 - Scientific/laboratory equipment
 - Food processing
 - Building materials
 - Metalworking
 - Distribution centers, especially retail
 - Back offices
 - Financial services centers
 - Insurance claims/service offices
 - Call centers
 - Shared services centers
 - Data centers/disaster recovery centers
 - Third party firms
 - Logistics
 - Call centers
 - Manufacturing (e.g., electronics)
 - Disaster recovery
- 3. Location strategy has globalized but still plenty of action in the U.S.**
 - Domestic corporations
 - Inward investment
 - Includes manufacturing, IT, and customer service

CORPORATE LOCATION TRENDS

4. **Regions of the country that most frequently appear on radar screen for locationally active firms**
 - **Atlantic Sunbelt (VA to FL)**
 - **Texas**
 - **Intermountain (ID to AZ)**
 - **Why**
 - **Perceived business climate/quality-of-life**
 - **Moderate costs**
5. **Predominant locational influences as we enter second half of decade**
 - **Human resources**
 - **Supply**
 - **Quality**
 - **Cost**
 - **Recent downturn a temporary lull**
 - **National labor shortage will soon appear**
 - + **BLS predicts**
 - **8 million shortage (5%) by 2010**
 - **28 million shortage (15%) by 2030**
 - **Requires companies to be viewed as preferred employers**
 - + **Compensation**
 - + **Benefits**
 - + **HR practices**
 - + **Career advancement**
 - + **Training**
 - + **Employee reward/recognition**
 - + **Company reputation**
 - + **Onsite amenities**
 - **Workforce programs must recognize these realities and become the equivalent of HR extension services**
 - **Training coordination**
 - **Information clearinghouse**
 - **Education**
 - **Basic in addition to technical skills**
 - **Diagnostics**
 - **Vendor referral**
 - **Public relations**

CORPORATE LOCATION TRENDS

- **Logistics**
 - Supply chain the driver
 - Market access
 - Vendor access
 - Highway linkages
 - Transportation services
 - Transportation costs
 - Will be more regional plant and sub regional distribution centers
- **Electric power**
 - Capacity
 - + Generation/net purchases
 - + Transmission
 - Reliability
 - + System-wide
 - + Substation circuits serving sites
 - + Dual feed
 - Cost
 - + Current price
 - + Price stability
- **Telecommunications**
 - Broadband
 - Redundancy
 - Choice
 - Dual feed
- **Available buildings (majority of companies assign as a vital criterion at outset of a location search)**
 - 70% insist on a modern available building
 - Areas without “product” often never in contention
 - At very least, fully serviced ready to go sites including large scale (100+acres)
 - Certified site program highly beneficial
- **Fast track**
 - Construction
 - Permitting, including online
 - Affects revenue generation due to market entry

CORPORATE LOCATION TRENDS

- **Disaster risk**
 - **Natural**
 - + **More area related**
 - + **Concerns**
 - **Earthquakes**
 - **Severe storms**
 - **Human induced**
 - + **More site specific**
 - + **Concerns**
 - **Proximity to installations high on list of terrorist watch such as power plants, water/sewer plants/tourism/recreation complexes, etc.**
 - **Site security such as controlled access, perimeter fencing, police/fire protection, electronic surveillance, civil defense plans, site visibility (e.g., most data centers prefer invisibility)**
 - **Companies are adjusting deployment strategies for business continuity reasons. Examples:**
 - + **Outsourcing**
 - + **Decentralization**
 - + **Geographic diversity in supply chain**
 - + **Redundant operations**
 - + **Telecommuting/satellite worksites**
 - + **Data/information replication (mirroring)**
 - + **Possibly dispersing from large metro areas due to terrorist insurance cost**
 - **Priorities for business continuity**
 - + **Mission critical (e.g., data centers, web hosting, trading desks, critical parts manufacturing, safety stock)**
 - + **Core business (e.g., manufacturing, distribution, customer service)**
 - + **Support functions (e.g., finance)**
 - + **According to Disaster Recovery Journal, 75% of companies are currently revising enterprise risk management plans**
- **Incentives**
 - **Can be a tiebreaker among shortlist of well-qualified communities**
 - **Most desired incentives**
 - + **Upfront cash (e.g., site infrastructure)**
 - + **Future cash, based on performance (the most desirable and fair – win/win)**
 - + **Taxable bond financing**

CORPORATE LOCATION TRENDS

- + **Property tax abatement**
 - ❑ **City and county**
 - ❑ **School**
 - ◆ **Lose/lose proposition**
 - ◆ **Perhaps payment in lieu of highly capital intensive projects**
 - + **Accelerated depreciation**
 - + **R&D tax credits**
 - + **Tax increment financing**
 - + **Pre-employment training**
 - + **Land / building cost writedown**
 - + **Loans**
 - ❑ **Low cost**
 - ❑ **Forgivable**
 - + **Seed capital for start-ups/second stage**
 - **Unfortunately many states offer tax credits**
 - + **Often can't be fully used**
 - + **Companies need/prefer cash**
 - **Clawbacks a lose/lose proposition**
 - **Performance based a win/win proposition**
6. **Key locational determinants for high-technology operations**
- **Critical mass (pertinent industry)**
 - **Companies**
 - **Talent pool**
 - **Research**
 - **Universities**
 - **Suppliers**
 - **Perceived quality-of-life (enhances national recruiting)**
 - **Air access**
 - **Telecommunications**
 - **Too many areas waste resources**
 - **On hunting**
 - **As opposed to**
 - + **Gardening**
 - + **Cultivation**
7. **Small towns/rural areas are becoming increasingly popular locations**
- **Better (i.e., less competitive) labor market conditions**
 - **Lower costs (especially payroll and occupancy)**
 - **Many manufacturers willing to accept a degree of tradeoff in highway access/delivery time to capture labor supply and operating cost advantages**

CORPORATE LOCATION TRENDS

- E-based motor carrier service opening up small towns
 - Greater choice
 - Lower cost
- Backhaul opportunities can further reduce costs
- Distribution centers are increasingly being located in smaller areas, away from bigger cities, but still within acceptable limits from a transportation cost perspective
 - Better labor markets
 - Lower business costs
- Many call centers/back offices are
 - Downscaling facility size
 - To take advantage of small town labor markets
 - Customer service centers increasingly rely on Internet Protocol for telephone linkage
 - + Results in less expense for switching equipment
 - + Allows for multiple, smaller facilities
 - + Often these facilities located in smaller communities (under 25,000)
 - Acceptable communities must have adequate telecom, especially if a mission critical operation
 - Telecom infrastructure rapidly improving in small town/rural America
- 8. Companies will accelerate the pace of offshore investment, driven by one or a combination of the following
 - Market penetration
 - Cost reduction
 - Knowledge acquisition
- 9. Offshoring not a serious threat to U.S. economy on a macro basis
 - By 2010 will constitute less than 2% of U.S. labor force
 - Will be at least a 5% labor force deficiency by 2010
 - Investing in foreign countries
 - Strengthens U.S. corporations
 - Allows U.S. corporations to do what they do best in the U.S.
 - Makes U.S. companies more efficient and innovative
 - Enriches overseas consumers, enhancing U.S. exports
 - Represents dynamism not stagnation of U.S. economy
 - Will continue to be significant corporate investment in U.S.
 - Domestic firms
 - Overseas corporations
- 10. Nonetheless
 - The global economy is here to stay
 - U.S. communities now truly compete globally

CORPORATE LOCATION TRENDS

- **Companies will modify their enterprise-wide portfolios as market conditions warrant**
- **Communities could be winners or losers**
- **Economic diversification paramount to success**
- **Communities must**
 - **Acknowledge**
 - + **Assets**
 - + **Limitations**
 - **Continuously upgrade**
 - + **Infrastructure**
 - + **Workforce**
 - **Brand/market for realistic results**
 - **Gradually move up the food chain**
 - **Devote resources to**
 - + **Business startup**
 - + **Expansion/retention**
 - **Traditional**
 - **Response to globalization**
 - + **Selective recruitment**
- **Be pragmatic for near-term and have a realistic vision for long-term**

LOCATIONAL ASSETS

1. Logistics

- **Central location**
- **Some 80 million people**
 - **Within next morning delivery**
 - **27% of nation's total**
- **Transportation infrastructure**
 - **21 RRs (5 Class I)**
 - **Numerous motor carriers**
 - **Nearly 1200 miles of interstate highways**
 - **Air cargo service, especially Kansas City and St. Louis**
 - **Small package processing**
 - **USPS distribution/processing centers**
 - **National air service to most gateway cities especially**
 - + **Kansas City**
 - + **St. Louis**
 - **Waterborne commerce**
- **Talent pool**
 - **238,000 employed in transportation/distribution**
 - **Presence of many 3 PLs**
- **Net result**
 - **Efficient distribution of goods**
 - **Cost effective freight delivery**

2. Human Resources

- **Ample pool of high quality labor, spanning the talent spectrum, e.g.,**
- **Professional like**
 - **Accounting/analysts**
 - **Engineers**
 - **Medical**
- **Technicians**
 - **Electrical**
 - **Health**
 - **Industrial (e.g., NC Machine)**
- **Production**
 - **Skilled (e.g., machine maintenance)**
 - **Semiskilled (e.g., machine operations)**
 - **Unskilled (e.g., picker/packer)**
- **Clerical**
 - **Administration support**
 - **Financial**
 - **Customer Service**

LOCATIONAL ASSETS

- **Nearly 30% of workforce (800,000+) underemployed (lower paying industries)**
- **Educated workforce (signifying quality)**

Attainment (Years)	<u>Percent</u>	
	MO	U.S.
≤ 12 years	18.7%	19.6%
12-15 years	59.7	56.0
10 or more years	21.6	24.4

- **Moderate income levels suggesting market competitive wage would have drawing power**

Category	MO	U.S.
Median household income	\$45,7000	\$49,800
% households under \$25,000	37.6%	34.7%

- **Solid representation across major industries**

Industry	<u>%Workforce</u>	
	MO	U.S.
Mfg.	12.0%	10.9%
Transportation/distribution	8.2	7.7
Financial services	5.2	5.2
Information technology	3.0	2.4
Professional/scientific services	4.5	6.0
Administration (clerical)	3.0	3.7
Retail trade	12.6	11.5
Leisure/hospitality	7.8	8.3

- **Growing population to help boost future labor supply**
 - **Overall**
 - **In prime working age bracket (20-34)**
- **Varied employment centers (communities) that can accommodate diverse**
 - **Staffing requirements**
 - **Industries**

LOCATIONAL ASSETS

3. **Good physical infrastructure**
 - **Wide array of sites/industrial parks**
 - **Electric power**
 - **Plenty of capacity**
 - **Reliable**
 - **Reasonable cost**
 - **Natural gas**
 - **Ample water supply**
 - **Water/sewer treatment capacity**
 - **Telecommunications**
 - **Most areas with broadband**
 - **Plenty of service providers**
4. **For most of state, low natural disaster risk**
5. **Extensive higher educational resources**
 - **Two year**
 - **Four year**
 - **Business friendly**
6. **Despite absence of right-to work, favorable labor/management relations**
 - **Less than 12% unionized**
 - **Organizing activity on par with national trends**
 - **Most well managed firms should be able to operate union free**
7. **Moderate taxation**
 - **#36 per capita state/local tax burden**
 - **Acceptable tax practices/rates**
 - **Corporate income**
 - **Effective rate 5.2%**
 - **Sales or 3 factor formula**
 - **Sales/use**
 - **5.2%-6.7%**
 - **Interstate teleco exempt**
 - **Production M&E exempt**
 - **Raw materials exempt**
 - **Property**
 - **Average \$1.50-\$2.50 per \$100**
 - **No inventory tax**
 - **Personal income tax, 6%**

LOCATIONAL ASSETS

- Unemployment insurance approximating U.S. average
 - 2.7% (new employer)
 - \$11,000 earnings base
 - \$297 per employee
- Workers' compensation
 - Still somewhat high
 - But declining, due to reform
 - \$2.67 per \$100
 - 22nd highest
- 8. Favorable labor costs
 - Major metros about U.S. average
 - Non metros below U.S. average (about 5%)
 - Health insurance 3% below U.S. average
- 9. Construction costs around U.S. norm
- 10. Fairly competitive incentives
 - Quality Jobs
 - BUILD (large projects)
 - Assignable credits
 - Pre-employment training
 - Enhanced enterprise zone
 - Urban redevelopment property tax abatement
 - Tax increment financing (TIF)
 - Film tax credit (an important industry)
- 11. Attractive quality-of-life and favorable cost-of-living
- 12. Recent business climate reforms
 - Liability
 - Workers' compensation
 - Incentives
 - Regulatory barriers
- 13. Sufficient critical mass in several high-tech fields (enhances recruiting), such as
 - Aerospace
 - Financial services
 - Information technology
 - Life sciences
 - Metalworking
 - Materials
 - Graphic arts/printing/packaging

LOCATIONAL LIABILITIES

1. Despite strong labor markets, some shortages emerging such as
 - Skilled trades
 - Technicians (e.g., electrical, plastics, engineering)
 - Engineering
 - Nursing
2. Paucity of modern available buildings outside major metro areas
3. In some cities, challenged public education systems not producing workforce ready graduates
4. Selected taxation policies
 - Franchise tax (a genuine nuisance tax)
 - Property tax on machinery & equipment
 - Sales and property tax on non production machinery and equipment (the production M & E for service sector such as IT)
5. Incentives gaps, such as
 - R&D tax credit
 - State venture capital fund
 - State grant or sunny day fund
 - Above average wage criterion for Quality Jobs
6. Absence of Right-to-Work legislation (probably results in 20%-25% less prospect flow in the industrial sector)
7. Workers' comp costs still too high
8. Legal liability system still not among best from business perspective (#35)
9. Virtual absence of international air service
10. Too many small employment centers without four-lane highway access, (e.g.,)
 - Kirksville
 - Maryville
 - Trenton
 - Aurora
11. Difficulty in national recruiting of younger professionals for many areas of the state
12. Natural disaster risk in some areas of the state
 - Earthquake
 - Tornadoes

ON-BALANCE

- 1. Highly competitive location, led by**
 - Logistics
 - Human resources
 - Physical infrastructure
- 2. Most deficiencies correctable**
- 3. Attractive for variety of industries, such as**
 - Machinery
 - Transportation equipment
 - Aerospace
 - Plastics
 - Food processing
 - Instruments
 - Medical apparatus
 - Packaging
 - Printing
 - Software
 - Biotechnology
 - Metallurgy
 - Materials
 - Data centers
 - Shared services centers
 - Financial services offices

COMPETITIVE IMPROVEMENT MEASURES

1. Transform workforce investment boards into equivalents of HR extension services
 - Training coordination
 - Education (best practices)
 - Employment demand/training response
 - Diagnostics
 - Vendor referral
 - Literacy coordination
2. Public relations effort to promote socio/economic value of technical careers
3. Basic skills certification for all H.S. graduates (mainly business designed)
4. Workforce advisory boards by industry sector
5. Tax reform
 - Elimination of franchise tax
 - Elimination of sales tax on non production machinery and equipment
 - Full federal deduction for state corporate income tax
6. New incentives
 - State grant program
 - Re-instate R&D tax credit
 - Incubator
 - Tax credit (transferable)
 - Property tax abatement
 - Case by case exception on wage to receive Quality Jobs
 - Protect tax increment financing
7. Shell building program
 - Send money
 - Small communities
8. Certified site program
 - Maybe some super sites
 - But more sites for broad industry sectors
9. Creation of centers of excellence for selected high-tech industries if not already in formal existence, e.g.,
 - Biotechnology
 - Nanotechnology
 - Advanced materials
 - Metallurgy
 - Aerospace
 - Logistics
10. Four-lane highway extension to designated employment centers
11. Intensify efforts for int'l air service

COMPETITIVE IMPROVEMENT MEASURES

12. Continued legal/liability reform

- Control asbestos legislation
- Eliminate joint & several liability
- Create meaningful caps on pain & suffering
- Protect employers from 3rd party lawsuits

13. In the environmental arena

- Comport state regs to federal
- Continue permit streamlining
- Require potential action warning in advance of notice violation

14. Simplify/recalibrate Target Missouri II

- Too unwieldy
- SIC data limitations
- Doesn't group industries
- Doesn't include functions
- Should distinguish between retention and recruitment targets
- Includes too many local industries with lowest spin-off employment potential

15. Expand image promotion efforts demonstrating MO as a "cool" place to live and work

16. Increase DED's business attraction budget to at least \$3 million per annum

ATTACHMENT A:

Speaker Biography

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<p>Dennis J. Donovan Principal Wadley-Donovan-Gutshaw Consulting</p>

Dennis J. Donovan is responsible for worldwide site selection services at Wadley-Donovan-Gutshaw Consulting. The firm has been advising corporations on office and industrial facilities location for 32 years.

At WDG Consulting, Dennis' responsibilities include service innovation, client relations, location strategy consulting, advising engagement managers/project consultants, and integrating strategic alliance partner capabilities for clients seeking turnkey services.

Entering the location/site selection field in 1974, Dennis' career began at Republic Steel with following stints at Dun & Bradstreet and two business mobility consulting firms. In 1992, Dennis and another industry leader formed The Wadley-Donovan Group, an evolution of the James P. Wadley Company, established in 1975. In 2004, The Wadley-Donovan Group changed its name to Wadley-Donovan-Gutshaw Consulting.

Dennis has enjoyed long-term relations as a location advisor to many industrial and service corporations. These include American Express, Lucent Technologies, Lowe's, CIGNA, Dun & Bradstreet, Goldman Sachs, Hughes Communications, Merck, SITEL, Solectron/Stream, and Veritas.

Dennis has assumed a leadership position in the industry's primary trade association -- CoreNet Global. He created and teaches the organization's site selection course both for certification and professional development. Additionally, Dennis was a member of CoreNet's 2010 Strategy of Place Task Force, which assessed future trends in the design and execution of global location strategy. Dennis also belongs to the American Association of Geographers, Geographical Society of America, and the International Economic Development Council.

Dennis has authored numerous articles and is frequently quoted in the trade and general business media on emerging corporate location trends. He often speaks on the subject and teaches the basics of economic development in two continuing education programs, viz., University of South Florida and University of Kentucky.

A geographer by trade, Dennis earned a bachelor's degree from the University of Nebraska at Omaha. He was awarded a masters degree in economic geography from the University of Rhode Island.